

Internal Auditing

NEWSLETTER

School Employer Workshops

Nebraska Public Employees Retirement System (NPERS)

July 2010

Internal Audit Process

The key to a successful and efficient audit is the quality of the documentation provided to NPERS. Recent changes have been made to improve the ease and efficiency of the audit process. An asterisk () denotes a change in the process. When you are selected for an NPERS audit, please be aware of the internal audit process and requirements, as follows:*

NPERS will send a School Employer Questionnaire to be completed and returned with the following information:

■ **Data on all active employees (including substitutes):**

- Social Security number
- Demographic information
- Title of employment position
- Date of hire
- Date of birth
- School Plan enrollment status

■ **A copy of the Master Contract or Negotiated Agreement with your district's explanation of benefits and policies (for the school year in question).**

***NPERS will have pre-selected employees for payroll testing. For employees whose payroll detail is requested, you must:**

■ **Provide three months of payroll detail to include:**

- Copies of applicable timecards for hourly employees (e.g., for October payroll detail NPERS needs the applicable timecard information, not October's).
- Documentation of hourly wage information including overtime rate.
- Copy of contract for contracted employees including salary information.

■ **Review the requested payroll detail, as additional documentation may be required (e.g., if an employee receives wages described as "other," you must provide documentation indicating the reason for the payment). NPERS must receive documentation to support all compensation paid to the employee.**

■ **Timecard information for each month of the plan year for all employees not enrolled in the retirement plan. If the**

employee is a substitute, provide a copy of your substitute "log" with the sub name, date worked; and teacher they subbed for.

- If you are able to produce an hours report that specifically identifies date/time worked and the amount of hours worked each month, you can provide this in lieu of timecards (does not apply to substitutes).

■ ***Employees are selected from the 7% Exemption Report. Submit documentation to support the selected exemption.**

■ **Miscellaneous employee questions.**

Upon completion of the audit, NPERS will send you a final audit letter identifying the required corrections. Your response to this letter is due within 20 days of the final audit letter date.

NOTE: Information provided via spreadsheet without supporting documentation is not sufficient for auditing purposes.

Common Audit Issues

1 The total amount of gross wages required to calculate employee retirement contributions:

Compensation used to determine retirement contributions must include gross wages or salaries payable to the member for personal services performed during the plan year and includes overtime, holiday pay and member contributions to or for IRS §125, 403(b) and 457 Plans. Sick and vacation leave is included as long as the employee has actually used it. In addition, if a member is paid a stipend for attending a workshop for the benefit of his/her employment, it is considered a personal service performed and must be included in the calculation of gross wages when calculating employee retirement contributions.

■ If an eligible employee participating in the School Plan works extra duties or as a substitute, all gross wages earned for personal services performed are subject to retirement contributions. To check this, review your payroll detail for any employee who has wages/salary with retirement contributions in addition to wages/salary without retirement contributions (applies to gross wages only and not to district-wide, permanent benefits also received).

■ **Always ask each employee at the time of hire with your district if they are employed with**

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Internal Audit Staff...

If you have any questions, need clarification, or would like to be selected for an internal audit, please contact a member of the Internal Audit Team.

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Our Purpose...

The School Employees Retirement System is governed by Neb. Rev. Stat. §§79-901 – 79-977.03, in addition to the Nebraska Administrative Code Title 303 Chapter 24. In administering the state's retirement systems, the Public Employees Retirement Board is directed by Neb. Rev. Stat. §84-1503(1) (g) to "adopt and implement procedures in order to verify the accuracy of such information."

Regarding the School Plan, Neb. Rev. Stat. §79-906(1) provides that "The director shall, from time to time, carry out testing procedures pursuant to §84-1512 to verify the accuracy of such information." The NPERS **Internal Audit Team** is then responsible for performing the testing. Quite simply, we are here to assist you in complying with State Statutes that govern the School Plan.

This newsletter is intended to identify areas often found in non-compliance with State Statutes and provide information on how to be "audit point free." We will also inform you of our internal audit process and what NPERS will require when you are selected for an audit.

another Nebraska public school in any capacity. If the employee is eligible and already contributing to the retirement plan, you must also remit retirement contributions for the employee.

- When an employee works part-time with one or more participating school employers, the total number of hours worked with all employers must be considered when determining employee eligibility for retirement purposes. Substitute hours cannot be included when determining eligibility.

Compensation used for determining retirement contributions must not include amounts paid to the member for unused sick leave or unused vacation leave; insurance payments converted into cash; reimbursement for expenses; fringe benefits; or bonuses for services not actually performed including early retirement inducements, cash awards and severance pay.

- If a school district pays for or specifically increases a member's salary to compensate for the Long Term Disability premium or insurance benefits; it is considered a fringe benefit and the amount cannot be included in the member's amount of total gross wages when calculating retirement contributions. Even if the LTD premium is then deducted from the employee's gross wages, it is still considered a fringe benefit if the district specifically pays the employee the amount of the LTD premium.
- If a school district offers a higher hourly wage only for an employee who elects family health insurance, the difference between what the employee would have received as an hourly rate and the increased rate if insurance was taken out would not be subject to employee retirement contributions.
- If an employee elects not to receive insurance benefits and is instead paid all or part of the cost of those benefits; it would be considered ineligible compensation when calculating retirement contributions.
- Adjustments regarding eligible compensation will be required for a maximum of two years. If the retirement contribution is less than \$10.00 in one month; no adjustment will be required.
- Adjustments to ineligible compensation will be required for two years for employees and one year for employers. If the retirement contribution is less than \$10.00 in one month; no adjustment is required.
- Any information provided via a spreadsheet is not considered sufficient documentation for auditing purposes without supporting documentation.

2 Determining employee eligibility to participate in the School Plan.

The following employees are required to participate in the retirement plan:

An employee of a Nebraska school district, an educational service unit, the state, or a county (if the position with the state or county requires a teaching certificate). The employee must also be a permanent employee at one or more schools working at least 15 hours per week on an on-going, regular basis, or with a full-time contract.

- If an employee is hired to work an average of 15 hours per week (60 hrs./mo.) or more, they should be enrolled upon hire.
- If an employee is originally hired at *less than* an average of 15 hours per week (60 hours/mo.) and transitions to a position (e.g., from part-time to full-time) requiring 15 hours per week (60 hrs./mo.) or more, they should be enrolled in the retirement plan at that time.
- An employee initially hired at *less than* 15 hours per week (60 hrs./mo.) who averages 60 hours per month or more in any three months during the plan year) must be enrolled in the retirement plan for the next payroll period.
 - ***On-going basis is defined as an employee who works an average of 15 hours per week (min of 60 hrs./mo.) in any three months during a plan year; they must be enrolled that next payroll period.**
- ***Once an employee meets the requirements to participate in the retirement plan, they must remain until termination or retirement.**

- If an employee is not properly enrolled in the retirement plan, make-up contributions will be required, going back two years.

The following employees are not eligible to participate in the retirement plan:

- Substitutes (unless employed in another capacity which qualifies for retirement). "Substitute" does not refer to those hired as *regular employees* to assume the duties of other regular employees who are temporarily absent.
- ***Temporary employees.** A temporary employee cannot hold the same position for more than one school year and still be considered a temporary employee.
- Employees who have signed an *Election of Non-Membership* form and have not had a break in service or have changed from a non-certified to a certified position.

The employer must be able to provide sufficient documentation to support the employment position of the employee; in addition to the amount of hours the employee worked each month July 1 through June 30.

3 Tracking employee hours and the total number of hours worked that are reported to NPERS.

One year of creditable service is granted for a plan year (July 1-June 30) in which an employee worked 1,000 or more hours. Service credit is defined by actual service rendered including holidays, sick and vacation days taken.

- The total number of hours an employee actually works, including regular and extra duty hours, must be reported to NPERS. NPERS does not assume every school employee will work throughout the entire school year and may actually work more or less hours than what is budgeted for the position. Hours worked by a non-salaried, hourly employee must be supported with a time card or time log information. Hours worked by a contracted 9-month employee can be calculated by dividing the total hours provided in the contract by 9 to determine monthly reportable hours; however, if the employee also worked extra duty hours, those hours must also be reported.
- The total number of hours an employee works per week/month determines eligibility for retirement contributions; therefore, the *employer must have documentation* of actual employee hours worked to support why an employee is or is not eligible to participate.
- Often, total hours worked are not tracked or reported for bus drivers. Instead of tracking the number of routes a bus driver drives during the week/month, track the total number of hours worked.
- Extra duty hours are also often not tracked. You *should* have a tracking system in place so you can report the actual number of extra duty hours to NPERS, whether or not the employee will meet the one year service credit minimum of 1,000 hours.

4 Employer demographic and employment information:

The employer is responsible for ensuring that member demographic and employment information is current and accurate. Incorrect demographic information prevents NPERS from communicating effectively with plan members and could financially affect members receiving a monthly benefit who have become reemployed with a participating school employer.

Incorrect member employment information may have a direct effect when calculating retirement benefit estimates and could delay the retirement process. Incorrect employment information may also have a negative effect on actuarial data.

- ***Regarding the employee date of hire information;** NPERS requests that this information appear on your Employer Wage and Contribution Report each month.